

## Message Text

LIMITED OFFICIAL USE

PAGE 01 PARIS 23540 01 OF 02 261852Z  
ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 ICAE-00  
AID-05 CEA-01 CIAE-00 COME-00 EB-08 EA-10 FRB-03  
INR-10 IO-13 NEA-10 NSAE-00 OPIC-03 SP-02 LAB-04  
SIL-01 AGRE-00 OMB-01 SS-15 STR-07 PA-01 L-03  
H-01 DOE-15 DOEE-00 SOE-02 /128 W  
-----070643 261909Z /46

O 261838Z JUL 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC IMMEDIATE 5345  
INFO DEPARTMENT OF TREASURY IMMEDIATE

LIMITED OFFICIAL USE SECTION 01 OF 02 PARIS 23540

USOECD

PASS: WHITE HOUSE FOR SCHULTZE AND OWEN; TREASURY FOR  
WIDMAN AND SYVRUD; STATE FOR COOPER AND HORMATS

E.O. 11652: N/A  
TAGS: OECD, ECON  
SUBJECT: OECD "ECONOMIC OUTLOOK" NO. 23: SECRETARIAT  
NEWS CONFERENCE

REF: PARIS 23219

1. ON 26 JULY, SECRETARIAT (FAY, HEAD ECONOMIC AND  
STATISTICS DEPARTMENT) HELD TRADI-  
TIONAL PRESS CONFERENCE PRIOR TO RELEASE OF "ECONOMIC  
OUTLOOK." IN RESPONSE TO VARIOUS QUESTIONS, FAY  
MADE THE FOLLOWING POINTS WHICH MAY BE OF INTEREST:

(A) ASKED WHAT WOULD BE EFFECTS OF BONN SUMMIT COMMIT-  
MENTS, FAY CITED MECHANICAL SIMULATION EXERCISE UNDER-  
TAKEN BY SECRETARIAT WHICH PROJECTS THAT IF ALL BONN  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 23540 01 OF 02 261852Z

COMMITMENTS ARE CARRIED OUT QUICKLY, AREAWIDE GROWTH IN  
THE FIRST HALF 1979 WOULD INCREASE TO 4-1/2 PERCENT FROM  
THE 3-1/4 PERCENT PRESENTLY FORECAST, ON "NO POLICY  
CHANGE" BASIS. THIS BREAKS DOWN INTO 4 PERCENT (2-3/4)  
FOR THE FRG, 9 PERCENT (4-1/2) FOR JAPAN, 3-1/2 PERCENT  
(3) FOR ITALY, 4 PERCENT (3-3/4) FOR FRANCE, 2-1/4 PER-  
CENT (1-3/4) FOR THE UK, 5 PERCENT (4) FOR CANADA (PRE-

SENT FORECAST IN PARENTHESIS). THE U.S. WOULD BE ONLY SLIGHTLY HIGHER THAN THE 3 PERCENT CURRENTLY FORECAST AND WOULD BE ATTRIBUTABLE TO STRONGER REAL EXPORTS. FAY STRESSED THAT THIS WAS AN "ACADEMIC EXERCISE" AND THAT IT SHOULD NOT BE TAKEN AS A SERIOUS FORECASTING EFFORT.

(B) FAY COMMENTED THAT THE BONN OUTCOME APPEARS MORE PROMISING THAN DOWNING STREET BECAUSE BONN FOCUSED MORE ON POLICIES TO ACHIEVE DESIRED RESULTS RATHER THAN SIMPLY PUTTING UP THE TARGETS AND NEGLECTING POLICIES NEEDED TO REACH THEM.

(C) IN RESPONSE TO A QUESTION AS TO WHETHER THE DOLLAR EXCHANGE RATE IS NOW "APPROPRIATE," AND WITH REFERENCE TO THE "OCCASIONAL STUDY" ON COMPETITIVE POSITIONS OF OECD MEMBER COUNTRIES (WHICH ACCOMPANIES THE "ECONOMIC OUTLOOK"), FAY NOTED THAT THERE HAD RECENTLY BEEN SOME IMPROVEMENT IN THE U.S. COMPETITIVE POSITION AS MEASURED BY THE REAL EXCHANGE RATE (AND A COMPARABLE DETERIORATION OF THE FRG AND JAPAN). HE ADDED THIS DOES NOT MEAN THE RATE IS APPROPRIATE SINCE ONE CAN NOT CHARACTERIZE THE BASE YEAR, BUT IT INDICATES THAT MOVEMENT IS IN THE RIGHT DIRECTION GIVEN EXISTING CURRENT ACCOUNT POSITIONS. THE SECRETARIAT CALCULATES THAT THE EFFECTS OF REAL EXCHANGE RATE CHANGES THAT HAVE ALREADY TAKEN PLACE SHOULD

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 23540 01 OF 02 261852Z

MEAN A 10 BILLION REDUCTION IN THE ANNUAL RATE OF THE U.S. DEFICIT BY MID-1979 (AND SIMILAR REDUCTION IN THE JAPANESE SURPLUS).

(D) IN RESPONSE TO A QUESTION ABOUT WAGE POLICY IN THE U.S., FAY SAID THE U.S. HAS NO WAGE POLICY AS THE TERM IS UNDERSTOOD IN EUROPE, BUT THAT U.S. AUTHORITIES ARE ENGAGED IN A MAJOR EFFORT TO MODERATE THE NEXT ROUND OF WAGE BARGAINING. HE CITED TWO IMPORTANT POINTS: FIRST, THAT THE BIG UNIONIZED SECTOR CONTRACTS NEGOTIATED THIS YEAR AND IN 1979 WILL NEED TO CARRY MODEST MONEY WAGE INCREASES AND, SECOND, THAT RECOVERY IN THE U.S. NEEDS TO BE TEMPERED TO AVOID OVERHEATING IN THE LABOR MARKET WHICH WOULD RISK A BIG CATCH-UP BY THE NON-UNIONIZED SECTOR.

(E) WITH RESPECT TO A POSSIBLE EUROPEAN MONETARY SYSTEM, FAY SAID IT IS IMPOSSIBLE TO KNOW WHAT THE IMPACT WOULD BE SINCE THE DETAILS OF A PROPOSED SYSTEM HAVE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 PARIS 23540 02 OF 02 261856Z

ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 ICAE-00  
AID-05 CEA-01 CIAE-00 COME-00 EB-08 EA-10 FRB-03  
INR-10 IO-13 NEA-10 NSAE-00 OPIC-03 SP-02 LAB-04  
SIL-01 AGRE-00 OMB-01 SS-15 STR-07 L-03 H-01  
PA-01 DOE-15 DOEE-00 SOE-02 /128 W  
-----070725 261909Z /46

O 261838Z JUL 78

FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 5346

INFO DEPARTMENT OF TREASURY IMMEDIATE

LIMITED OFFICIAL USE SECTION 02 OF 02 PARIS 23540

USOECD

NOT YET BEEN WORKED OUT. THE SYSTEM COULD COVER THE RANGE FROM ENCOURAGING INFLATION VIA EXCESSIVELY EASY FINANCING FOR BALANCE OF PAYMENTS DEFICITS TO BEING STRONGLY DEFLATIONARY IF FINANCING WERE EXCESSIVELY DIFFICULT TO OBTAIN. HE EXPRESSED THE HOPE THAT THE EVENTUAL OUTCOME WOULD BE HALFWAY BETWEEN THESE EXTREMES. HE ADDED, HOWEVER, THAT AN INTERNATIONAL MONETARY SYSTEM IS A FUNCTION OF THE BASIC CONDITIONS OF THE ECONOMIES WHICH COMPOSE IT, AND THAT NO SYSTEM WILL IN AND OF ITSELF SUCCEED IN CHANGING BASIC CONDITIONS.

2. IN HIS OPENING STATEMENT, FAY SUGGESTED THAT, SENSE OF DEJA VU WHICH ONE COULD GAIN FROM PRESENT ISSUE OF "OUTLOOK" MAY CAMOUFLAGE FACT THAT OECD AREA POSSIBLY MOVING TOWARD WATERSHED IN TREND OF ECONOMIC DEVELOPMENT. ON OTHER SIDE OF THIS "GREAT DIVIDE" WOULD BE CONTINUED SLOW GROWTH, EFFORTS TO REACH FULL EMPLOYMENT BY CUTTING PRODUCTIVITY, LIKELY DISAPPEARANCE OF THE FREE TRADE

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 23540 02 OF 02 261856Z

SYSTEM DEVELOPED SINCE THE 40'S, AND INHERENT SLOWDOWN IN GROWTH OF REAL GLOBAL INCOME. DANGER OF CROSSING SUCH DIVIDE ASSOCIATED WITH CIRCUMSTANCE THAT: (A) U.S. GROWTH WILL NECESSARILY AND APPROPRIATELY TAIL OFF IN COMING QUARTERS WITHOUT ASSURANCE THAT OTHERS WILL TAKE UP THE RESPONSIBILITY OF MAINTAINING BUOYANCY AND (B) GOVERNMENTS MAY FIND IT UNDESIRABLE IF NOT IMPOSSIBLE TO MAINTAIN CURRENT LEVELS OF EMPLOYMENT SUBSIDY. THUS, OECD MAY BE HEADING TOWARD A GROWTH RECESSION WHICH COULD BE WORSE THAN THE CURRENT FORECASTS UNLESS SUFFICIENT ACTION IS TAKEN TO STIMULATE DOMESTIC DEMAND AND EQUALLY IMPORTANTLY TO ALLEVIATE ACCOMPANYING SOCIO-ECONOMIC CONDITIONS WHICH ARE CURRENTLY BLUNTING THE EXPANSIONARY EFFECT OF DEMAND MANAGEMENT INSTRUMENTS. NEVERTHELESS, THE SECRETARIAT IS MODERATELY OPTIMISTIC BECAUSE: (A) IT BELIEVES GOVERNMENT ACTION CAN BE SUCCESSFUL; (B) INFLATION IN MOST OF THE OECD IS COMING UNDER BETTER CONTROL ALTHOUGH THE WIDENING GAP BETWEEN THE U.S. AND GERMAN-JAPAN INFLATION RATES IS A WORRISOME AND PARTICULARLY DELICATE POINT; AND (C) SOME IMPORTANT CHANGES THAT HAVE TAKEN PLACE IN REAL EXCHANGE RATE RELATIONSHIPS -- IF ALLOWED TO STAND -- SHOULD LEAD TO AN IMPROVEMENT IN PATTERN OF CURRENT BALANCES. THE QUESTION REMAINS POSED WHETHER COUNTRIES HAVE THE POLITICAL WILL TO APPLY THE POLICIES WHICH ARE GENERALLY AGREED TO BE REQUIRED.

3. DECONTROL JULY 28, 1978.

SALZMAN

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** SECRETARIAT  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 26 jul 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978PARIS23540  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780306-1099  
**Format:** TEL  
**From:** PARIS USOECD  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780718/aaaaapjo.tel  
**Line Count:** 198  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 04fc576c-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 78 PARIS 23219  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 05 may 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 1880215  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** OECD "ECONOMIC OUTLOOK" NO. 23: SECRETARIAT NEWS CONFERENCE  
**TAGS:** ECON, OECD  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/04fc576c-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014